

The Home Satellite Newsletter

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NBC PEACOCK TO BE GROUNDED, CBS EYE TO CLOSE ON HOME MARKET ABC ONLY NETWORK HOPE FOR SATELLITE TV VIEWERS

NBC and CBS Confirm Plans to Scramble and Halt Home Satellite Reception. ABC Hopes to include Satellite Viewers in its Picture. SPACE Will Lead Satellite Industry War Wagon Response in Washington.

Watch for fireworks to erupt between the home satellite industry and the two major commercial television networks which plan to scramble and shut out satellite TV homes.

Both NBC and CBS told HSN they plan to cut off program feeds received by satellite TV homes. Both will face strong industry fight since much of the existing market as well as the prime potential market cannot receive network programming off-air. ABC is looking for a just and viable peace.

NBC will be first. Switch to Ku-Band satellites will be completed between the network and its 214 station affiliates late this spring. At that time, home C-Band satellite systems will no longer be able to pick up NBC. Future plans call for scrambling. But for the time being, Ku-Band will eliminate the "siphoning of signals" by satellite TV homes, according to NBC spokesperson Helen Manasian.

"We are not going to do anything to encourage the reception of our signal by backyard dishes," Ms. Manasian says. "The unauthorized viewing hurts our affiliates."

However, inexpensive home Ku-Band conversion equipment is expected to be available this year which will allow C-Band satellite TV homes to pick up NBC until signals are scrambled.

The CBS eye is even more piercing. Network vp-communications George Schweitzer says all CBS feeds will be scrambled and not made available to satellite TV homes. "Even if we could or had the opportunity to deal directly with the home today, we would not," he says. "Because we would lose the positive and very important relationship with our 200 affiliated stations." CBS hasn't committed to a scrambling date, but Schweitzer says it will happen soon after transfer to satellite distribution is completed to its affiliates in 1986.

More open-minded, ABC takes a favorable view of the home satellite market. Scrambling of network feeds is in future plans

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but so is consideration of a way for satellite TV homes to receive the network's programming. "We have to be sensitive to our affiliates who want us to scramble to protect local commercials in network programming," says Brent Stranathan, manager of telecommunication planning for the network. "But we'd like to reach these people and that's still a consideration. We're not like HBO where we have to charge a buck."

Proposed network scrambling will be met head-on by satellite industry protectors. Reacting to NBC's move to disenfranchise satellite TV homes soon, SPACE's counsel Rick Brown says tongue-in-cheek: "I guess in the spring a young man's fancy turns to baseball and network TV. We will do everything in our power to convince the networks it is in the public interest to allow access to home earth stations, which we believe will not hurt the affiliates. If we can't convince them, there are other remedies." That kind of talk translates into a strong offensive ranging from FCC challenges and Congressional action to lawsuits and Justice Department inquiries.

"You could argue that network programming is for the consumption of the general public," says Fred Finn, Rick Brown's law partner, "and that the networks must serve everybody. I suppose ultimately it's a question for the courts, the FCC and Congress. It could be the Vietnam peace talks all over again."

Battle-ready SPACE Executive Director Chuck Hewitt says NBC and CBS will be shirking public responsibility: "It's clearly a disservice and not in the public interest for the networks to say they will never serve people that live in remote areas of the country. The networks provide vital information that everyone should have access to. What they are planning borders on being un-American. We are going to take whatever steps are necessary to make sure the rights of these people are protected."

Side-line observing communications attorneys believe the networks are acting within their legal rights.

Attorney Dan Toohey of Dow, Lohnes & Albertson says the networks have a property right to the programming being broadcast and a right to decide who uses that property. He adds that the networks are simply eliminating the legal reception of unscrambled programming under the provisions of the Cable Policy Act of 1984.

Toohey, whose client list includes network affiliates, says pressure on the networks from affiliates to scramble is probably directed less at the home market than at cable operators who have been known to pick up and rebroadcast "raw network feeds" such as the Super Bowl.

"It's a private form of distribution to designated affiliates and the networks have the right to restrict unauthorized reception," says communications attorney Jack Cole of Cole, Raywid and Braverman.

Attorney Chuck Jackson of Shooshan and Jackson says network scrambling is an inexpensive way to protect copyrighted material. The networks, says Jackson, also want to protect news feeds. "What if they have a scoop they are preparing for the evening news? Anyone with a dish can receive it."

At least one Capitol Hill legislator and satellite industry ally disagrees. Senator Barry Goldwater's counsel and legislative aide J. Terry Emerson says that while it may be legal for networks to scramble, it would be a public disservice. "I think ultimately the networks would be required to provide a mechanism for people to get the programming one way or the other. It could be a major issue as the market grows for home dishes."

Senator Albert Gore sides with SPACE on the issue. "We would push for some sort of mechanism for earth station owners to receive network program-

ming the same way we require cable operators to carry off-air signals," a Gore aide says. "If you're an advertiser supported service, we don't understand why you would not have a more is better approach."

We estimate, based on analysis of existing research, that up to 640,000 homes or 80% of today's satellite homes would be without the three network's programming if the scrambling switch is thrown. That 80% of the home satellite installed base is part of three to five million U.S. television households that are classified as signal-starved.

Survey Of 50 Major Dealers Coast-To-Coast

INCREASING NUMBER OF NEW BUYERS MAKING SWITCH FROM CABLE MORE CHOICES, FINANCING, PRIDE OF OWNERSHIP ARE PRIME FACTORS SALES REMAIN STRONG DESPITE UNKNOWN FEARS OF SCRAMBLING

- * Home satellite system sales are making surprisingly strong showing in areas with cable television available. As many as 30% of those buying satellite systems today could subscribe to cable service. At HSN's projected installation rate of 40,000 units per month, the cable industry could be losing 12,000 subscribers a month to home satellite ownership.
- * Homes are turning to satellite system ownership to get what they view as "their choice, not cable's choice." Access to more programming, continued customer service problems with cable and availability of financing packages that put monthly payments for home systems in same range as top tier of cable subscription are key factors in choice of home satellite ownership over cable.
- * System sales remain strong in most areas despite threat of scrambling. Virtually all individuals purchasing systems are aware of potential realities of scrambling but are not put off by possibility of additional hardware investment and monthly program service charge.
- * Satellite dealers and retailers expect to handle sale and installation of decoder hardware when scrambling becomes a reality. They welcome the potential opportunity to upgrade their existing customer base and expand market share.
- * At least 75% of today's system sales are financed with bulk of new customers paying in the \$2500 - \$3500 range for high end systems that include remote control and ability to access programming from multiple satellites.
- * Increased consumer awareness is cited as key to bolstering sales.
- * Scrambling is expected to lift curtain of fear still clouding purchase decision for many potential consumers.
- * Severe winter weather in many parts of the country slowed sales and installations during the first two months of this year, But most retailers report maintaining or exceeding 1984 levels. Retailers and dealers report brisk business during the first two weeks of March.

That's a glimpse into general marketplace conditions we found during a

recent HSN survey of 50 major dealers around the country. Here is what we found behind top line results.

While cable industry is proclaiming in recent multi-media campaign that cable's "not just more choice, it's your choice," dealers say consumers in underserved cable markets are very aware there's more out there. "People want everything that's available, not just the services the cable company decides to offer," says Dave Worthy, a dealer operating in Tuscon, where Cox Cable holds the franchise. "When people can finance a system, own it outright and get everything for about what it costs to get some of it on cable, the decision is made for them." Worthy says over 50% of his customers are coming from inside the city limits of Tuscon which is served by cable. Worthy claims cable is his best promoter. "They've got a lot of major problems with service and installation and every time that gets publicized in the local newspapers I get a flood of customers."

The Detroit area's largest dealer, Randy DeSolver, owner of Sat-Tel, is also seeing an increase in the number of customers coming from cable areas. Like Worthy, DeSolver says 50% of his customers are coming from cabled areas in the suburbs which are served by a number of cable operating companies. The 50% figure is echoed by Mimi Cook, owner of Professional Satellite Systems of Palo Alto, Ca. "At least half of my customers have the choice of cable or owning their own system. They are the same people who enjoy video, the same people who buy VCRs and rent tapes. They see cable as extremely limiting."

Figures on buyers with access to cable ranged from 10% to 50% but we calculated an average of 30-35%. This trend tracks with top-line research results from a major player pursuing a C-Band direct strategy. That research shows that 33% of current C-Band installed base had cable but disconnected to purchase a home satellite system. Number appears to be considerably higher this year than last. A survey conducted last year by HSN parent company CommTek revealed that only 15% of the universe had the option to subscribe to cable.

Additional research is needed to get firm fix on exactly how many home satellite owners could subscribe to cable and why some cable subscribers are opting for home satellite systems. But there are two clear factors at work. 21% or 7 million cable subscribers are underserved, i.e. offered less than 21 channels of service. Therefore, the only way for them to get additional choices is through home TVRO ownership. Consumers, on the other hand, with full availability of cable programming choices wanting all of what's available can be paying as high as \$60 a month for service. Buying a home TVRO is an economical alternative to paying these high monthly fees.

HSN's survey revealed that dealers, for the most part, welcome scrambling as a natural extension of their business. All anticipate the entrenched dealer network is well positioned to handle sale and installation of decoder hardware. Some are concerned about compatibility. Estimates on the percentage of the installed base that cannot accommodate decoding devices are in the 10-30% range. Dealers view scrambling as a way to upgrade customers' receivers.

According to the dealers surveyed, most customers expect they will eventually pay for satellite-delivered program services. Customers are asking how much and when. Glendale, West Virginia retailer Ted Williams sums up the feeling of most dealers: "I just wish they'd go ahead and do it and then we'd all know what to expect and what to offer."

Of the 50 dealers surveyed, 60% say sales have nearly doubled compared to the same period last year. 20% says sales are even and another 20% find sales lagging behind last year. Those not registering growth cite severe weather and

the traditional post-Christmas, pre-tax buying slump.

Negative newspaper advertising campaigns being waged by cable operators in some communities across the country to convince consumers not to buy home satellite systems are having significant effect on sales, several dealers say. In Massillon, Ohio the local cable company said in its full-page December 1984 ad that scrambling is only three months away and there are no current plans for allowing home earth station owners to receive satellite signals. Localized campaigns will continue to impact sales but counter-measures being mounted by satellite industry should stem tide.

Dealer available financing is growing trend that is spawning continued consumer acceptance of home systems. Through joint arrangements with local finance companies and banks, a \$3500 system can be financed for 36 to 60 months with payments ranging from \$90 to \$135. Lower end systems in the \$1600 to \$2500 range yield monthly payment of \$45 to \$61.

PROGRAM SERVICE SURVEY REVEALS MOST ARE IN NO RUSH TO SCRAMBLE

Disney and WOR Are Next Out of Scrambling Gate. Mickey Mouse Would Like to be on His Own. Seven Out of 39 Programmers Now Have Plans To Scramble Signals.

HBO's well-oiled PR machine is waging a well coordinated public relations campaign to warn owners and prospective buyers of home satellite systems that scrambling is close at hand. But few other satellite programmers are publicly expressing any urgency to get on scrambling bandwagon. A survey of the 39 major satellite-delivered program services found seven with plans to scramble, 17 studying possible packaging proposals and another 15 with no intention of scrambling. That does not mean, however, that many of those saying "no plans" wouldn't jump at a financially lucrative offer to become part of a scrambled package.

Talk to date has largely focused on "packages" of services but there is mounting sentiment on the part of some programmers not to be packaged. Among those publicly advocating an "a la carte" approach to the home market is Disney. The Disney Channel says it would like to be available on its own rather than packaged with a host of other services. Tom Coughlin, The Disney Channel's director of special projects, says the company would like to scramble its signal this year and sell the service a la carte to satellite system owners. "We would like to offer a standalone service because we know how best to market our service," says Coughlin. "Right now, in terms of all pay services, we are in the best position to go it alone. The decision is whether it will be cost effective."

Disney sees the decoder as an "off-the-shelf" item that consumers could purchase through an electronic retailer. The actual program service, in Coughlin's view, could be purchased through the cable operator or an 800 number. More importantly, Coughlin says Disney recognizes the satellite TV system owner has made a significant investment in hardware. That suggests a lower monthly fee than that paid by cable television subscribers. "A lot will depend on the total cost to provide and market the service," says Coughlin.

WOR-TV is the only other service without previously announced plans that

says it will scramble. Eastern Microwave, the New York independent TV station's satellite distributor, confirms that a timetable is being formatted. WOR joins Disney, HBO, Cinemax, Showtime/The Movie Channel and ESPN as planned scramblers. ESPN, the only advertiser-supported service to say it will scramble, is motivated more by the potential of its commercial business--bars and hotels--than the home market. Playboy said direction it will go on scrambling will be charted in the next month.

Ad-supported programmers, by and large, appear to wish the whole matter of scrambling would just go away. Most admit it is in their interest to reach as many homes as possible. Scrambling is not a high priority. Group W Satellite expresses the most visible interest in participating in a home satellite package. "If we see a commitment to maximize revenue from the backyard market that's cable friendly and the burden of the cost of scrambling is born by the packagers, we have nothing to lose," says Harlan Rosenzweig, president of GWSC. Other major programmers may be thinking the same way but are publicly less direct. Turner Broadcasting vp and pointman Terry McGuirk says, "We are studying scrambling very carefully but will not be prepared to say anything until we make a decision. It's a very fluid situation at the moment."

That "very fluid situation" McGuirk refers to is the plethora of
(Continued on page 7)

Here is the status of individual satellite-delivered program services as of March 10, 1985.

PROGRAM SERVICE	SCRAMBLING PLANS	PACKAGE PLANS
Arts & Entertainment	No	Possible
Black Entertainment TV	No	Possible
BRAVO, American Movie Classics	No	None
CBN Network	No	None
CNN, Headline News, WTBS	Studying	Studying
Country Music Television	No	None
The Disney Channel	Yes	Possible
ESPN	Yes	Possible
Eternal Word Network	No	None
Financial News Network	No	Possible
Galavision	Future	None
HBO, Cinemax	Yes	Packager
Home Theatre Network	No	Possible
The Learning Channel	No	Possible
Lifetime	No	None
Modern Satellite Network	No	None
MTV, VH1, Nickelodeon	No	Possible
Nashville Network	No	Possible
National Christian Network	No	None
The Playboy Channel	Possible	Possible
PTL	No	None
Satellite Programming Network	No	None
SelectTV	No	None
Silent Network	No	None
Showtime/The Movie Channel	Yes	Packager
Trinity Broadcasting	No	None
USA Network	No	None
The Weather Channel	No	None
WGN, WPIX	No	None
WOR	Yes	Possible

Scrambling Plans: Indicates intent to scramble as of March 10, 1985.

Package Plans: Indicates plan or interest in being part of a package of services scrambled to pursue the backyard market.

proposals and options being presented to programmers. Canaan Communications, Hughes Communications, HBO and Viacom have all been in active discussions and negotiations with programmers to reach packaging agreements. And while some programmers have already signed, the agreements are characterized as "non-binding." Most adamant about not scrambling are the religious programmers who speak with one voice in saying their interest is simply to be available to as many homes as possible.

From all indications, the packaging of services to pursue a C-Band direct strategy is still some time off. One programmer summed up the situation: "I wouldn't discourage any consumer from buying a home satellite system. There is going to be plenty of free programming up there for a long time to come."

KU-BAND PLAN BEING CONSIDERED BY PAY SERVICES TO REACH HOME MARKET

Showtime Excitement and No-Place-Like HBO Seriously Consider Move To Ku-Band Satellites. Both Pay Networks Seen As Eyeing Virgin Urban Markets. Rural Satellite Market Could Become Tombstone Territory.

Further clouding proposed plunges into C-Band direct, HBO and Showtime/The Movie Channel are giving serious consideration to moving their services to KU-Band satellites. Together and separately, both pay networks are known to be having on-going discussions with RCA Americom about leasing transponders on two 16-channel KU-Band satellites slated to be in operational orbit in early 1986.

Movement to KU-Band would immediately eliminate installed base of C-Band satellite TV homes, projected to exceed 1.2 million by early '86. Those TVROs would not be equipped to receive programming in new frequency range. Satellite industry manufacturers are prepared to respond with low-cost conversion components by time switch could be made. But scrambling question remains.

Satellite system expert Taylor Howard, chairman of Chaparral, says majority of home satellite systems in today's market could convert with an added investment of \$400 to \$500, plus installation. Ballpark prices for home conversion components assume production in hundreds of thousands. Limited production quantities would have price tag of \$1,000, according to Howard.

Under KU-Band plan, existing home satellite market might be shunned in favor of pay television-starved big cities where bigger payoff is expected. KU-Band strategy will give cable operators a shot at going head-to-head with MMDS in uncabled urban markets before MMDS establishes a foothold.

Microband, considered the leading MMDS operator, will have head start with spring launches already set for San Francisco, New York and Milwaukee. Scheduled launches before end of this year include Washington, D.C., Boston and Chicago. Others targeted later, where reportedly negotiations continue for additional channel capacity, include Philadelphia, Baltimore, Cleveland, Detroit and St. Louis. Price for five or six channel MMDS service is in the \$20 to \$30 per month range with \$50 installation fee.

Insiders at both HBO and Showtime/The Movie Channel confirm there have been discussions with many satellite-delivered programmers--most on Galaxy's G1 satellite today--about package alliances on the KU-Band birds. In addition, there have been across-the-table talks between the two pay-TV rivals

about migrating at the same time.

Underneath any moves by HBO, Showtime/The Movie Channel and other programmers into the home satellite market is deeply rooted concern about blessing and participation of cable operators. Until recently, the cable industry has viewed home satellite owners as unwanted pirates. That situation is slowly changing. Cable operators have begun to recognize market potential. Two of the nation's largest operators, TCI and ATC, have made interest known through purchase pursuit of USCI. And a handful of smaller operators are already in the business. But main priority for cable operators is upping stagnant penetration and stemming churn. Recognition and acceptance of the home satellite market as emerging profit center is needed for programmers to cement satellite and direct-to-home plans.

FCC URGED TO RULE QUICKLY TO PRE-EMPT LOCAL DISH ZONING

Congressional satellite industry proponents continue to press the FCC to pre-empt onerous local satellite dish antenna zoning. We're told that if commission doesn't act soon, federal legislation will be introduced.

Industry lobbying is bolstered by Goldwater resolution urging FCC to act, prohibiting local bans or unreasonable restrictions on installations. Capitol Hill sources are confident commission will make favorable ruling.

Matter tops commission meeting agenda Thursday 3-28. FCC could rule then or consider ruling-making following additional public comment.

HOME SATELLITE SEMINAR SET FOR MAY 7

The Executive Conference on Home Satellite Television, an intensive one day seminar on where the business is and where it's going, will be held Tuesday May 7, 1985 at the Park Lane Hotel in New York. The conference will examine critical issues of scrambling; market size; new directions in technology, sales, service and programming; and the plans of new entrants. Key findings of the Home Satellite Owners' Report, an in-depth study examining attitudes, behavior and viewing habits of home satellite system owners will also be presented at the conference. For more information or to register for the conference, please call The First Communications Group at (703) 243-4646.

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